CHART OF THE MONTH

MARCH 2013

Despite dire warnings from politicians and strategists alike over the "fiscal cliff" and sequestration, stock prices continue to climb the proverbial "wall of worry." Of note, the Dow Jones Industrial Average is currently trading at an all-time high and the broader-based Standard & Poor's 500 is within striking distance of the record level set 5 1/2 years ago.

While the short-, intermediate-, and long-term trends are all positive, we believe that the market is a bit stretched and due for another minor correction in a bull market that celebrated its four-year anniversary earlier this month. Pullbacks on the order of 10% are relatively common even during good times and serve to remind investors that prices don't go up in a straight line.

As shown in the chart below, the higher highs and higher lows are a positive technical underpinning for the market. Nonetheless, if the past two years are prologue, stocks may be due for a minor correction as the magnitude and duration of the advance since the low in November are similar to the previous two rallies. However, rather than trying to outguess the market by going all in or all out, we believe these ebbs and flows represent opportunities to trim positions on strength and add to them on weakness.

Stocks remain attractive compared to historical valuations and most alternative investments, including cash and fixed income. We continue to favor high-quality companies with above-average yields and prospects for high-single-digit to double-digit dividend increases for our Equity Income strategy and market leaders with powerful and durable competitive advantages that generate extraordinary profits for our Growth strategy.

Meanwhile, the economy is improving, albeit at a less-than-robust pace. The recovery in housing that we foresaw a year ago augurs well for further gains in employment, largely offsetting the higher payroll taxes and other fiscal drags. The combination of rising stock and home values creates a "wealth effect," which bodes well for consumer spending (a segment that comprises over 70% of GDP). The primary risks to our outlook are geopolitical and a change in Fed policy. The former is always unpredictable and the latter at least a year away.

LEDERER & ASSOCIATES
INVESTMENT COUNSEL

111 WEST OCEAN BOULEVARD, SUITE 1350, LONG BEACH, CALIFORNIA 90802
TEL: (562) 495-2350 ▲ FAX: (562) 495-2006
www.lederer-associates.com